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TO RUEHC/SECSTATE WASHDC 3013
INFO RUCPDOC/USDOC WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEHNE/AMEMBASSY NEW DELHI 9442
RUEHKA/AMEMBASSY DHAKA 9065
RUEHIL/AMEMBASSY ISLAMABAD 5954
RUEHKT/AMEMBASSY KATHMANDU 3988
RUEHKP/AMCONSUL KARACHI 1997
RUEHCG/AMCONSUL CHENNAI 6498
RUEHBI/AMCONSUL MUMBAI 4428
RUEHGV/USMISSION GENEVA 1106
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TAGS: ECON ETRD CE
SUBJECT: SRI LANKAN TAX ON FOREIGN PROGRAMMING COULD HARM
US FILM EXPORTS

¶1. (SBU) Summary: In a move to resuscitate the ailing local movie industry and protect the local TV production industry, Sri Lanka has announced plans to impose a tax on most foreign television series and movie broadcasts. While the tax was slated to go into effect April 1, no implementing regulations have yet appeared. Sri Lankas movie industry is failing due to a decline in theatre attendance and the increasing popularity of foreign TV programs (in particular Hindi and Tamil films from India). The government expects the new tax to raise funds to aid the local industry and free up air time and theater slots for local productions. TV stations have complained, that, at projected rates (the final rates have not been determined yet, though the Finance Ministry has suggested some figures), the tax will force them to drop foreign programming, including popular US television shows. There has been no consumer reaction so far. Government officials and the local movie lobby do not appear interested in consumer choice and trade implications, as they focus on the twilight of their film industry and play to an increasingly vocal cultural elite. End Summary.

GOVERNMENT TO TAX FOREIGN TELECASTS

¶2. (SBU) The government is preparing to impose a tax on foreign movies and television series broadcasts in Sri Lanka. April 1 was initially set as the implementation date, but Ministry of Finance sources suggested this date would not hold and, indeed, no published regulations have yet appeared. The tax was proposed by President Rajapakse (in his capacity as Finance Minister) in his 2006 budget speech last December. In order to impose the tax, a new Finance Bill was passed by Parliament on March 23. According to the Bill, the tax aims to ensure propagation of Sri Lankan values and is to be charged not only on films but on advertisements as well. However, implementing regulations giving actual rates, details and mode of the tax are yet to be announced.

TAX SCHEME: THE POSSIBLE DETAILS

¶3. (SBU) While proposing the tax, the President said it would promote the local film and teledrama (television series) industry. According to Mr. R.T.L. Weerasinghe,

tax consultant to the Finance Ministry, movies will be taxed at Rs 75,000 (USD750) per film. For a television series, the tax will be imposed on blocks of five episodes. But much remains unclear including whether this will
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actually be the charge, and how the funds will be used to directly benefit the local industry.

¶4. (SBU) Although the exact nature of the tax has not yet been defined, some categories such as classics, documentaries, childrens movie and educational films are to be exempted. While satellite transmissions (cable TV) are not expected to be charged this tax initially, we understand that the Finance Ministry is studying these broadcasts as a possible revenue source as well. Additionally, the Finance Ministry has yet to decide whether reruns will be taxed.

¶5. (SBU) Some stations say that the proposed tax is approximately as costly as the royalty fees they must pay for broadcasting. In Sri Lanka, foreign programming generally leads to higher ratings, which in turn lead to greater advertising revenue. Nonetheless, it will not be possible to pass this entire tax burden on to advertisers. Sri Lankan advertisers are more price sensitive than their counterparts in other countries, since advertising expenditures are not fully tax deductible. The increased fees may make various films and television series too expensive, resulting in the cancellation of foreign programming in favor of cheaper (and less desired) local programming, leading to a decrease in consumer choice.

PROTECTING A SHRINKING INDUSTRY

¶6. (SBU) The local film industry is happy with this taxation scheme for two reasons: the revenue will help the ailing industry, and excessively high costs of foreign programming could free up air time for local programming. According to some government sources, since the main competitors are Hindi and Tamil movies, the government is also considering the possibility of excluding English-only channels from the tax.

¶7. (SBU) The ever-shrinking Sinhalese movie industry produces a handful of movies and several television series for broadcast each year. Sinhalese is the language spoken by the majority Sinhala community in Sri Lanka (as opposed to Tamil, the primary language of the minority Muslim and Tamil communities). The Sri Lankan film industry does not usually produce Tamil films.

¶8. (SBU) According to local movie industry sources, the industry faces a decrease in already low theatre attendance (Note: theater attendance has reportedly not picked up following the 2002 ceasefire. End Note) due to high ticket costs and the increasing prevalence of free television with increasingly greater program choices. There are 11 television channels in Sri Lanka, with two dedicated to English programming and one channel broadcasting only Tamil programs. The other eight broadcast an assortment of programs in all three languages. While the audience for English language programs is small, several English language movies and dramas are broadcast every week.

¶9. (SBU) The local movie industry is also plagued by a lack of investment and technology, and most of the films cannot compete with Hindi and Tamil productions imported
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from India (and popular with all Sri Lankan ethnic communities). Some Hindi and Tamil programs come with subtitles or are dubbed in Sinhalese. Ravindra Randeniya, a leading actor and a key player in the industry, told EconOff that foreign movies broadcast in Sri Lanka are threatening to close the only channel currently providing

airtime for the Sri Lankan industry. According to him, the prime time slots in most of the TV channels have been taken up by Tamil and Hindi programs from India. While Randeniya admits that the Tamil and Hindi movies from India are superior to local productions in terms of technology and cinematography, he argues that the local industry needs to be sustained in order to preserve Sinhalese culture.

¶10. (SBU) In addition to preserving local culture, another argument used by tax proponents is the adverse cultural impact of foreign programming. According to Mr. Asoka Serasinghe, Chairman of the state-owned National Film Corporation, Indian films are having a profound impact on Sri Lankan culture. Serasinghe said that the North Indian Hindi culture and the South Indian Tamil culture are different from the Sri Lankan Tamil and Sinhalese cultures. According to him, addiction to Tamil and Hindi movies has increased tremendously and some sections of the local industry are considering advocating a prohibition on dubbing.

INDIA NOT HAPPY

¶11. (SBU) According to Sri Lankan Department of Commerce (DOC) sources, the Indian government has already communicated its concerns on possible adverse effects on Tamil and Hindi movies produced in India. India would like to liberalize audio visual services under the Indo-Lanka Comprehensive Economic Partnership Agreement (CEPA), a pending expansion of the Indo-Lanka Free Trade Agreement. However, the DOC does not expect the Finance Ministry to immediately address Indias concerns, preferring to impose the tax first and negotiate the issue later.

US INDUSTRY CONCERNS

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¶12. (SBU) The US exports approximately USD 1 million in television programs and films to Sri Lanka each year. Post has been in contact with representatives from Time Warner and the Motion Picture Association of America (MPAA). Both have written to the GSL to voice their concerns, which are primarily couched in terms questioning the validity of the new tax under WTO national treatment rules. Post is working with both organizations, their local counterparts and local television stations to 1) discourage implementation of this tax; or 2) minimize its impact on American programs. The Ambassador has written to the Finance Minister requesting suspension of this tax provision. We have also been told that English language films may be exempted, an unsatisfying, but American-friendly, compromise that we will encourage as a second best option.

COMMENT

¶13. (SBU) This tax is one of a series of recent trade liberalization reversals in Sri Lanka (including a fee on
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certain imported items and luxury goods) and has garnered the interest of the US film and television industry. It remains unclear to what extent this tax is permissible under Sri Lankas bilateral trade agreements or WTO obligations. Post has suggested to the GSL that this tax may be contrary to WTO national treatment provisions and that we are looking at it as a possible issue to raise during upcoming Trade and Investment Framework Agreement talks in May. Beyond trade issues, the tax will be a drag on Sri Lankas efforts to popularize English usage if English programming significantly declines. Additionally, while no public reaction has yet occurred, viewer complaints could arise once favorite programs are cut, since television is the main entertainment available for

most middle- and lower-income groups. Government officials and the local movie lobby do not appear interested in consumer choice and trade implications, however, as they focus on saving the local industry and bow to an
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increasingly vocal cultural elite. Apart from the threat from films, it will be interesting to see how Sri Lanka decides to meet other economic pressures, especially from India, as it opens to increased economic ties under the Indo-Lanka Free Trade agreement and an expanded CEPA. End Comment.

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